

TOWN OF PAOLI, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

TOWN OF PAOLI, OKLAHOMA
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YEAR ENDED JUNE 30, 2020

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Kimberlye R. Mayer, CPA, P.C.

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Independent Auditor's Report

The Board of Trustees
Town of Paoli, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paoli, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Paoli, Oklahoma as of June 30, 2020 and the changes in its modified cash basis financial position and, where applicable, its cash flows for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

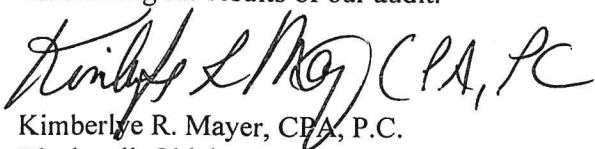
We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2021 on our consideration of the Town of Paoli, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberley R. Mayer, CPA, P.C.

Blackwell, Oklahoma

November 9, 2022

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Trustees
Town of Paoli, Oklahoma

We have audited the financial statements of Town of Paoli, Oklahoma as of and for the year ended June 30, 2020 and have issued our report thereon dated November 9, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Paoli, Oklahoma's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses on pages 5-6 as items #2020-1 through 2020-3, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Paoli, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Paoli, Oklahoma's Response to Findings

The Town of Paoli, Oklahoma 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town of Paoli, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Kimberlye R. Mayer", followed by the printed text "CPA, P.C." in a large, stylized font.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
November 9, 2022

TOWN OF PAOLI, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

2020-1:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Design of Controls Over the Utility Deposits:

Criteria: Review procedures are needed to provide oversight and accountability in the utility processes. The reconciliation and review of the utility accounts is an important control activity needed to adequately protect the Town's assets and to ensure accurate financial reporting.

Condition: The same employee maintains the utility billing system, collects, records and deposits the utility payments. The outside CPA that the Town utilizes to reconcile the revenues was not able to accurately match up certain deposits with the Town's records. Deposits were not timely made. There is only limited oversight provided over this employee in the conduct of their daily functions.

Cause: There are no reviews or oversight procedures within the Town to ensure that all utility activities are reviewed and accurately reported.

Effect: Without sufficient oversight of the utility deposits and the billing system, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriations of assets, could occur and not be detected within a timely basis.

Recommendation: The Trustees should evaluate the risks associated with the lack of oversight in the utility system and consider implementing controls that could mitigate these risks.

Trustee's Response: The trustees will discuss and evaluate ways to establish better oversight procedures in order to improve the Town's accountability for its assets.

2020-2:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Design of Controls Over Citation Deposits and Receivables:

Criteria: Review procedures are needed to provide oversight and accountability in the citation processes. The reconciliation and review of the citations process is an important control activity needed to adequately protect the Town's assets and to ensure accurate financial reporting.

Condition: The same employee maintains the citation processes which includes deposits, collections, and maintaining the accounts receivable for these citations. There is no accurate record that ties the payments to the deposits and to the citation receivables.

Cause: There are no reviews or oversight procedures within the Town to ensure that all citations are accurately collected and reported.

TOWN OF PAOLI, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2020

2020-2 continued:

Effect: Without sufficient oversight of the citation processes, the risk significantly increases that errors and/or fraud related to the citations issued and collected, could occur and not be detected within a timely basis.

Recommendation: The Trustees should evaluate the risks associated with the lack of oversight over the citation processes and consider implementing controls that could mitigate these risks.

Trustee's Response: The trustees will discuss and evaluate ways to establish better oversight procedures in order to improve the Town's accountability for its assets.

2020-3:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Design of Controls Over the Preparation and Review of the Financial Information:

Criteria: The Town is required by law to maintain complete and accurate records of the receipt and disbursement of any public funds reflecting all financial and business transactions.

Condition: There is one employee that maintains the Town's accounting activities. The Town does utilize an outside CPA to prepare its financial statements, however the Town has not always provided the detail or information that this CPA has requested to enable them to prepare accurate financial reports.

Cause: The Town does not have adequate procedures for preparing or reviewing the financial information provided to the outside CPA.

Effect: The financial records presented to the Trustees may not have been accurate.

Recommendation: The Trustees should evaluate the accounting procedures over the financial records to ensure that all information is accurate.

Trustee's Response: The trustees will discuss and evaluate ways to establish better accounting procedures in order to improve the Town's accountability for its assets.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF PAOLI
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2020

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
Assets:			
Cash and cash equivalents	\$ 10,484	\$ 47,522	\$ 58,006
Certificates of deposit	20,818		20,818
Due from other funds		224	224
Capital assets (Note 2):			
Land	5,000	4,134	9,134
Capital assets (net of accumulated depreciation)	253,144	586,333	839,477
Total Assets	<u>289,446</u>	<u>638,213</u>	<u>927,659</u>
Liabilities:			
Payroll withholding	2,658	945	3,603
Due to other funds	224		224
Customer meter deposits		16,789	16,789
Capital lease payable (Note 3)	5,159		5,159
Total Liabilities	<u>8,041</u>	<u>17,734</u>	<u>25,775</u>
Net Position:			
Net investment in capital assets	252,985	590,467	843,452
Restricted for:			
Cemetery care	26,463		26,463
Unrestricted	1,957	30,012	31,969
Total Net Position	<u>\$ 281,405</u>	<u>\$ 620,479</u>	<u>\$ 901,884</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2020

Function/Program	Program Revenue			Net (Expense) Revenue & Changes in Net Assets		
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General Government	\$ 29,952	\$ 4,652	\$ 2,221	\$ (25,300)	\$	\$ (25,300)
Public Safety	89,507	4,641		(43,027)		(43,027)
Cemetery	13,603	1,725		(9,290)		(9,290)
Streets	9,871	2,588		(9,871)		(9,871)
Culture and Recreation	3,454			(3,454)		(3,454)
Total government activities	146,387	11,881	2,221	(90,942)		(90,942)
Business-type activities:						
Water	89,617	91,306			1,689	1,689
Sewer	67,386	54,526			(12,860)	(12,860)
Sanitation	47,181	52,987			5,806	5,806
Total business-type activities	204,184				(5,365)	(5,365)
Total government	\$ 350,571	\$ 11,881	\$	\$ (90,942)	\$ (5,365)	\$ (96,307)
General Revenues:						
Taxes:						
Sales taxes				37,292		37,292
Franchise taxes				13,726		13,726
Gas and vehicle taxes				4,950		4,950
Other taxes				24,379		24,379
Investment income				412	128	540
Miscellaneous				3,169	20,804	23,973
Total general revenues				83,928	20,932	104,860
Change in net position before transfers				(7,014)	15,567	8,553
Transfers in (out)						
Change in net position				30,873	(30,873)	
Net position - beginning of year				23,859	(15,306)	8,553
Net position - end of year				257,546	635,785	893,331
				\$ 281,405	\$ 620,479	\$ 901,884

The accompanying report and notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

TOWN OF PAOLI
BALANCE SHEET
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 8,529	\$ 1,955	\$ 10,484
Certificates of deposit		20,818	20,818
Due from employees			
Total Assets	<u>8,529</u>	<u>22,773</u>	<u>31,302</u>
Liabilities and Fund Balance:			
Liabilities:			
Payroll withholding	2,658		2,658
Due to other funds	<u>224</u>		
Total Liabilities	2,882		<u>2,658</u>
Fund balances:			
Nonspendable			
Restricted		22,773	22,773
Committed			
Assigned			
Unassigned	5,647		5,647
Total Fund Balances	<u>\$ 5,647</u>	<u>\$ 22,773</u>	<u>\$ 28,420</u>

RECONCILIATION TO STATEMENT OF NET POSITION:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$582,068, net of accumulated depreciation of \$323,924 are not financial resources and, therefore, are not reported in the funds.	258,144
Capital leases are not due and payable in the current period and therefore are not reported in the funds.	<u>(5,159)</u>

Net position of governmental activities	<u>\$ 281,405</u>
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The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 80,348	\$	\$ 80,348
Charges for services			
Fines and fees	39,618		39,618
Investment income	112	300	412
Grants and donations	14,102		14,102
Miscellaneous	4,891		4,891
Total Revenues	<u>139,071</u>	<u>300</u>	<u>139,371</u>
Expenditures:			
Current:			
General Government	36,027		36,027
Police Department	99,276		99,276
Fire Department	2,772		2,772
Streets	8,361		8,361
Cultural and Recreation	6,658		6,658
Cemetery	20,520		20,520
Debt Service:			
Capital lease principle	10,166		10,166
Interest	229		229
Total Expenditures	<u>184,009</u>	<u>0</u>	<u>184,009</u>
Excess (deficiencies) of revenues over expenditures	(44,938)	300	(44,638)
Other Financing Sources (Uses):			
Transfers in (out)	<u>30,873</u>		<u>30,873</u>
Net changes in fund balances	(14,065)	300	(13,765)
Fund balances, beginning of year	<u>19,712</u>	<u>22,473</u>	<u>42,185</u>
Fund balances, end of year	<u>\$ 5,647</u>	<u>\$ 22,773</u>	<u>\$ 28,420</u>
RECONCILIATION TO THE STATEMENT OF ACTIVITIES:			
Net changes in fund balances - total governmental funds			\$ (13,765)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Capital assets purchased			54,621
Capital lease payment			10,166
Depreciation expense			(27,163)
			<u>37,624</u>
Change in Net Assets of Governmental Activities			<u>\$ 23,859</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2020

	Public Works Authority Enterprise Fund
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 47,522
Due from other funds	224
Total Current Assets	<u>47,746</u>
Noncurrent Assets:	
Land	4,134
Other capital assets, net of accumulated depreciation (Note 2)	586,333
Total Noncurrent Assets	<u>590,467</u>
Total Assets	638,213
Liabilities:	
Current Liabilities:	
Payroll withholdings	945
Notes payable (current portion)(Note 4)	
Total Current Liabilities	<u>945</u>
Noncurrent liabilities:	
Customer meter deposits	<u>16,789</u>
Total Noncurrent Liabilities	<u>16,789</u>
Total Liabilities	<u>17,734</u>
Net Position:	
Net investment in capital assets	590,467
Restricted for debt service	
Unrestricted	30,012
Total Net Position	<u><u>\$ 620,479</u></u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2020

	Public Works Authority Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$ 91,306
Sewer	54,526
Sanitation	52,987
Grants	
Other income	20,804
Total Operating Revenues	<u>219,623</u>
Operating Expenses:	
Water Department	69,642
Sewer Department	55,912
Sanitation Department	36,132
Depreciation	42,498
Total Operating Costs	<u>204,184</u>
Operating income (loss)	15,439
Non-Operating Revenues (Expenses):	
Interest income	128
Interest expense	
Total Non-Operating Revenues (Expenses)	<u>128</u>
Changes in Net Position	15,567
Transfers	(30,873)
Net Position, beginning of year	<u>635,785</u>
Net Position, end of year	<u><u>\$ 620,479</u></u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2020

Cash Flows From Operating Activities:	
Cash received from customers	\$ 219,623
Other operating cash receipts	
Cash payments to suppliers for goods and services	(106,109)
Cash payments to employees	(55,499)
Net cash provided (used) by Operating Activities	<u>58,015</u>
Cash Flows From Non-Capital Financing Activities:	
Cash Flows From Capital And Related Financing Activities:	
Transfers in (out)	(30,873)
Acquisition and construction of capital assets	(26,567)
Loan proceeds	
Principle payments	
Interest payments	
Net cash provided (used) by Financing Activities	<u>(57,440)</u>
Cash Flows From Investing Activities:	
Interest on cash and investments	129
Change in due to (from)	
(Increase) decrease in restricted accounts	
Net cash provided (used) by Investing Activities	<u>129</u>
Net increase (decrease) in cash and cash equivalents	704
Beginning cash and cash equivalents	46,818
Ending cash and cash equivalents	<u><u>\$ 47,522</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	15,439
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	42,498
Change in assets and liabilities:	
Due from other funds	(224)
Payroll liabilities	(173)
Customer deposits	475
Net cash provided (used) by operating activities	<u><u>\$ 58,015</u></u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity

The Town of Paoli, Oklahoma (Town) operates under the Town Board of Trustees form of government and provides the following services as authorized by its charter: public safety, streets, public improvements, recreation, planning and zoning, and general administration. The Town's financial reporting entity is composed of the following:

Primary Government: Town of Paoli, Oklahoma
Blended Component Unit: Town of Paoli, Oklahoma Public Works Authority

Blended Component Unit

The Paoli Public Works Authority (PWA), an entity legally separate from the Town but having the Town as its beneficiary, is governed by the same board of trustees as governs the Town. For financial reporting purposes, the PWA is reported as if it were part of the Town's operations because its primary purpose is to finance and provide water, sewer, and trash services to the citizens of the Town.

Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds for that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprises fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Governmental Funds

The General Fund is the primary fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds, all of which are reported as non-major funds:

Cemetery Care Fund – used to account for 12 ½% of revenue from lot sales. These funds are restricted for purchasing cemetery land or making cemetery capital improvements.

Proprietary Funds

The enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Public Works Authority Fund. This fund is used to account for the activities in providing water, sewer, and sanitation services to the public. This fund is classified as a major fund.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and propriety fund statements. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Equity Classification

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraint placed on how fund balance can be spent. The governmental fund types classify fund balances as follows:

Nonspendable fund balance: This classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted fund balance: This classification includes revenue sources that are restricted to specific purposes internally imposed by creditors, grantors or imposed by law.

Committed fund balance: This classification includes the portion of fund balance that can only be used for specific purposes imposed by a majority vote of the Town's trustees.

Assigned fund balance: This classification includes a portion of fund balance that has been budgeted by the board of trustees.

Unassigned fund balance: This classification includes a portion of fund balance that has not been restricted, committed or assigned for a specific purpose.

Budget Policy and Practice

An annual budget is submitted to the Town Trustees for review, and public hearings are held to address the budget. Once the budget is approved, the Town Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Revenues are budgeted by source, and expenditures are budgeted by department and class as follows: personal services, materials and supplies, other services and charges, and capital outlay. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions are subject to final review by the Town Trustees.

The budget for the operating funds is prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders is expected to be paid. The actual financial statements are reported on the modified cash basis.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

Budget and Budgetary Accounting

The Town adopts annual budgets for the general and proprietary funds.

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts (excluding restricted accounts) and certificates of deposit with a maturity of three months or less.

NOTE 2 – PROPERTY AND EQUIPMENT:

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations, are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 2 – PROPERTY AND EQUIPMENT (continued):

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year ended June 30, 2020 was as follows:

	Balance at June 30, 2019	Additions	Deductions	Balance at June 30, 2020
Governmental activities:				
Fire Department equipment	\$ 172,526	\$	\$	\$ 172,526
Police Department equipment	75,993	34,721		110,714
Parks and Recreation	47,676	4,378		52,054
Land	5,000			5,000
Buildings	137,748	15,521		153,269
General equipment	2,525			2,525
Street improvements	85,979			85,979
Totals	527,447			582,067
Less accumulated depreciation:				
Equipment	207,657	22,084		229,741
Buildings	66,726	3,570		70,296
Street improvements	22,377	1,509		23,886
Totals	296,760	27,163	0	323,923
Capital assets, net	\$ 230,687	\$ (27,163)	\$ 0	\$ 258,144
Business-type activities:				
Land	\$ 4,134	\$	\$	\$ 4,134
Buildings	21,674			21,674
Utility equipment	280,510	15,367		295,877
Water & sewer system	1,139,505	11,200		1,150,705
Totals	1,445,823	26,567		1,472,390
Less accumulated depreciation:				
Buildings	21,672			21,672
Utility equipment	215,466	20,450		235,916
Water & sewer system	602,285	22,050		624,335
Totals	839,423	42,500		881,923
Capital assets, net	\$ 606,400	\$ (15,933)	\$	\$ 590,467

NOTE 3 - CAPITAL LEASE OBLIGATION:

The Town leases a vehicle for the police department under a lease classified as a capital lease. The leased equipment is amortized on a straight line basis over 5 years. Total accumulated amortization related to this vehicle was \$27,916 at June 30, 2020. The following is a schedule showing the future minimum lease payments with an interest rate of 1.98% and maturity date of October 2020:

	6/30/2021	5,197
Total minimum lease payments		5,197
Less interest		-94
Present value of payments		\$5,103

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 4 – LONG TERM DEBT:

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

There is no long-term debt at June 30, 2020 as the result of governmental activities. The long-term debt arising from cash transactions, payable from proprietary fund resources consisted of the following:

Refundable deposits reported as a liability within the Statement of Net Position utility deposits.	\$ 16,789
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The following is a summary of changes in long-term debt for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
Loans	\$	\$	\$	\$	\$
Refundable deposits	16,314	475		16,789	
Totals	<u>\$ 16,314</u>	<u>\$ 475</u>	<u>\$ 0</u>	<u>\$ 16,789</u>	

NOTE 5 – CASH AND DEPOSITS:

The State of Oklahoma allows municipalities to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts of savings certificates; or county, municipal or school district direct debt.

Cash and deposits are categorized for level of risk as follows:

- Category 1 – Insured or collateralized with securities held by the Town or by its agent in the Town's name.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- Category 3 – Uncollateralized

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 5 – CASH AND DEPOSITS, continued:

Cash and deposits, categorized by level of risk, at June 30, 2020 are:

	Bank Balance	Category			Carrying Amount
		1	2	3	
Bank accounts	\$ 62,396	\$ 62,396	\$	\$	\$ 58,006
Certificates of deposit	20,818	20,818			20,818
Totals	<u>83,214</u>	<u>83,214</u>	<u></u>	<u></u>	<u>78,824</u>

NOTE 6 – EQUITY CLASSIFICATION:

Equity in government-wide financial statements is classified as net position and displayed in three components:

Investment in capital assets: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net position: Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position: All other net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

NOTE 7 - PENSION PLAN:

The Town's volunteer firemen participate in the Oklahoma State Firefighter's Pension and Retirement System. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The total contributions for the year ended June 30, 2020, was \$896 and covered 14 volunteers.

NOTE 8 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE 9 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the Town's own assumptions in determining the fair value of investments).

The Town's financial instruments include cash and cash equivalents and certificates of deposit. The Town's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 10 – RISK MANAGEMENT:

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims activity for the year just ended.

NOTE 11 – CONTINGENCIES:

As of June 30, 2020, the Town did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 12 – EVALUATION OF SUBSEQUENT EVENTS:

The Town has evaluated subsequent events through November 9, 2022 the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

TOWN OF PAOLI
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
	\$	\$	\$	\$
Beginning budgetary fund balance	19,712	19,712	19,712	
Resources (Inflows):				
Sales tax	40,000	40,000	37,292	(2,708)
Use tax	10,000	16,000	16,185	185
Franchise taxes	14,000	14,000	13,726	(274)
Alcoholic beverage tax	6,000	7,500	7,843	343
Tobacco tax	500	500	351	(149)
Motor vehicle and gas taxes	4,500	5,500	4,951	(549)
Fines	30,000	39,500	39,618	118
Other revenues	2,500	41,500	4,891	(36,609)
Grants/donations		10,400	14,102	3,702
Interest	75	75	112	37
Total Resources	107,575	174,975	139,071	(35,904)
Charges (Outflows):				
General Government:				
Materials and supplies	1,200	3,900	3,971	(71)
Other services and charges	10,000	12,300	12,287	13
Capital outlay		8,650	8,604	46
Total General Government	11,200	24,850	24,862	(12)
Parks:				
Materials and supplies	400			0
Other services and charges	1,000	2,300	2,281	19
Capital outlay		4,400	4,378	22
Total Parks & Recreation	1,400	6,700	6,659	41
Fire:				
Materials and supplies	1,000			0
Other services and charges	3,000	3,000	2,772	228
Capital outlay				
Total Fire	4,000	3,000	2,772	228
Police:				
Personnel services	47,000	55,500	55,328	172
Materials and supplies	7,000	9,000	8,818	182
Other services and charges	12,000	30,500	30,010	490
Capital outlay	10,000	45,200	11,751	33,449
Total Police	76,000	140,200	105,907	34,293
Street and Alley:				
Materials and supplies	1,000			0
Other services and charges	10,000	8,500	8,361	139
Total Street and Alley	11,000	8,500	8,361	139

"Unaudited Supplementary Information"

TOWN OF PAOLI
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND (Continued)
YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
	\$	\$	\$	Positive (Negative)
Municipal Court:				
Personnel services	1,650	1,770	1,764	6
Other services and charges	2,400	2,400	2,000	400
Total Municipal Court	4,050	4,170	3,764	406
Animal Control:				
Materials and supplies	250			0
Other services and charges	150	150	140	10
Total Animal Control	400	150	140	10
Town Clerk/Treasurer:				
Personnel services	8,000	7,880	7,858	22
Town Attorney:				
Other Services and Charges	2,000			0
Maintenance:				
Materials and supplies	50	200	192	8
Other services and charges	2,000	3,000	2,974	26
Capital outlay				0
Total Maintenance	2,050	3,200	3,166	34
Cemetery:				
Materials and supplies	500	8,500	8,334	166
Other services and charges	8,000	12,200	12,186	14
Capital outlay				0
Total Cemetery	8,500	20,700	20,520	180
Senior Citizens:				
Total Charges	128,600	219,350	184,009	35,341
Other Financing Sources:				
Transfer from other funds	21,025	30,825	30,873	10,015
Transfer to other funds				
Total Other Financing Sources	21,025	30,825	30,873	10,015
Ending budgetary fund balance	\$ 19,712	\$ 6,162	\$ 5,647	\$ (515)

TOWN OF PAOLI, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2020

Budget Law

The Town prepares its annual operating budget under the provisions of the Municipal Budget Act. In accordance with these provisions the following process is used to adopt the annual budget:

1. At least 30 days prior to July 1, a proposed operating budget is submitted to the Town Council.
2. A public hearing is held no later than 15 days prior to July 1 for citizen comments.
3. Subsequent to the public hearings but no later than 7 days prior to July 1, the budget is adopted by resolution of the Town Council.
4. The adopted budget is filed with the Office of State Auditor and Inspector.

The level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as minimum legal level of control by department within a fund:

- Personal Service
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Fund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Council approval. The Mayor may transfer appropriations between object categories within a department without Town Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Basis of Accounting

The budget is prepared on the cash basis of accounting as applied to the governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions. The Town does not budget for depreciation.